

Message Text

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ACTION SS-25

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E.O. 11652: GDS

TAGS: ETRD, EAID, PFOR, BEXP, EG, XF

SUBJECT: ARAB BOYCOTT

1. ECONCOUNS WAS SUMMONED TO MINTRADE FEB 18 FOR "URGENT" MEETING WITH UNDERSECRETARY ZOULFIKAR, ON UNDISCLOSED SUBJECT WHICH TURNED OUT TO BE ARAB BOYCOTT AND US ACTIONS TO COUNTER IT. ZOULFIKAR, UNDERSECRETARY EL NAHAL, AND GROUP OF OTHER OFFICIALS WANTED TO TALK ABOUT HOW TO DEAL WITH PROBLEM.

2. EGYPTIANS HAVE EVIDENTLY HAD INITIAL ENCOUNTERS WITH US BANKS REFUSING TO HONOR LETTERS OF CREDIT CONTAINING RESTRICTIVE BOYCOTT CLAUSES. EL NAHAL SAID THAT THESE REFUSALS, WHICH HE POINTED OUT DID NOT EVEN INVOLVE US GOODS (L/CS WERE TO FINANCE YUGOSLAV PRODUCTS), HAVE FOCUSED GOE'S ATTENTION ON MAGNITUDE OF POTENTIAL PROBLEM. THEY HAVE ALSO GALVANIZED EFFORTS OF MINTRADE TO FIND A VIABLE ALTERNATIVE TO PRESENT SITUATION IN WHICH, BY LAW, EGYPTIANS MUST INCLUDE BOYCOTT LANGUAGE IN LETTERS OF CREDIT AND OBTAIN THEM ON BILLS OF LADING. (NO ONE AT MEETING COULD CITE APPLICABLE LAW. WE BELIEVE PRACTICE IS MORE LIKELY RESULT OF USEAGE RATHER THAN POLICY.)

3. EGYPTIANS BELIEVE THAT THEY ARE VIRTUALLY ONLY ARAB COUNTRY TO ADHERE STRICTLY TO BOYCOTT LANGUAGE ON TRADE DOCUEMNTS. ALTHOUGH NO ONE COULD REPLY TO SPECIFIC QUESTIONS ON THIS POINT WITH DEFINITIVE ANSWERS, THOSE PRESENT AT MEETING WERE CONVINCED THAT EGYPT HAS BEEN FAR MORE SCRUPULOUS THAN ALMOST ALL OTHER ARAB STATES. GIVEN SIGNIFICANCE OF PRESENT US-EGYPTIAN RELATIONS,

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POLITICALLY AS WELL AS ECONOMICALLY, INCLUDING OF COURSE AID

PROGRAM, ZOULFIKAR ET AL ARE SEEKING SOME MEANS OF ESCAPTING FROM SITUATION.

4. IT HAD THEREFORE BEEN DECIDED TO CONSULT WITH EMBASSY ON A PLAN OF ACTION THAT REQUIRES RELATIVELY PROMPT STEPS IF IT IS TO BE SUCCESSFUL. EGYPTIANS HOPE TO TABLE DOCUMENT AT FORTHCOMING OF ARAB BOYCOTT COMMISSION (MARCH 15 IN CAIRO) TO WHICH SIGNIFICANT NUMBER OF OTHER MODERATE STATES COULD SUBSCRIBE, WHICH WOULD PERMIT ADHERENCE TO PRINCIPLES OF BOYCOTT WITHOUT COMING INTO DIRECT CONFLICT WITH US ANTI-BOYCOTT LEGISLATION. IT WAS HOPED THAT USG COULD ASSIST IN THIS EFFORT THROUGH THE PROVISION OF ADVICE AND ASSISTANCE.

5. ECON COUNS MADE BRIEF PRESENTATION IN WHICH HE PROMISED TO RELAY REQUEST TO WASHINGTON BUT POINTED OUT THAT EXECUTIVE BRANCH WAS OF COURSE FULLY COMMITTED TO SUPPORT OF US LEGAL POSITION AS ESTABLISHED BY CONGRESS AND COULD NOT IN ANY WAY BE INVOLVED IN EFFORTS TO CIRCUMVENT THEM. HE STRESSED THAT EFFORTS BY ARABS TO COMPLY WITH REQUIREMENTS OF ANTI-BOYCOTT LEGISLATION WAS DIFFERENT MATTER AND THAT IT MIGHT BE POSSIBLE TO PROVIDE SOME GUIDANCE ON THIS SUBJECT.

6. EL NAHAL ADMITTED THAT MEETING WAS TAKING PLACE WITHOUT KNOWLEDGE OF SENIOR GOE OFFICIALS, BUT HE WAS CERTAIN THAT THEY WOULD AGREE WITH STEPS BEING UNDERTAKEN TO FIND MEANS OF SOLVING SENSITIVE AND COMPLICATED ISSUE. HE FURTHER FELT THAT A SUFFICIENT NUMBER OF OTHER ARAB STATES WOULD BE EQUALLY INTERESTED IN FINDING A SOLUTION THAT WOULD NOT CAUSE EMBARRASSMENT TO EITHER SIDE SO THAT THERE WAS A REASONABLE CHANCE FOR SUCCESS IF MOVE WAS MADE QUICKLY.

7. COMMENT: RECOGNIZE SENSITIVE NATURE OF THIS ISSUE BOTH DOMESTICALLY AND INTERMS OF OUR RELATIONSHIP WITH ARAB WORLD, EMBASSY NONETHELESS FEELS WE SHOULD EXPLORE THIS ISSUE FURTHER WITH EGYPT WITH OBJECTIVE OF BOTH REDUCING EFFECTIVENESS OF BOYCOTT AND REMOVING IT AS SOURCE OF FRICTION IN OUR MIDDLE EAST RELATIONS. AS DEPT IS AWARE, GOE HAS ALREADY EXHIBITED POTENTIAL FLEXIBILITY IN HANDLING BOYCOTT ISSUES WITH RESPECT TO POSSIBLE US INVESTORS. WHILE IT IS PROBABLY TRUE THAT PROCEDURES INVOLVED IN PREPARATION IN L/CS AND D/LS AT WORKING LEVEL ARE FAIRLY AUTOMATIC INsofar AS BOYCOTT REQUIREMENTS ARE CONCERNED,

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SOME FLEXIBILITY IS ALSO POSSIBLE IN THIS AREA. IN FACT WITH RESPECT TO AID-FINANCED TRANSACTIONS, CAIRO 292 REPORTS AGREEMENT OF MINECON COOPERATION AND OTHER MINISTRIES TO ELIMINATE BOYCOTT LANGUAGE IN TENDER AND FINANCIAL DOCUMENTS. WHILE WE REALIZE THAT AID MATTERS HAVE SPECIAL INTERESTS FOR GOE, COMPLICATIONS WHICH DEVELOP IN REGULAR FINANCIAL TRANSACTION WITH US ARE ALSO OF CONSIDERABLE CONCERN TO EGYPT, AS DISCUSSION WITH MINTRADE OFFICIALS REVEALS.

9. EMBASSY BELIEVES IT IS IN US INTEREST TO FOLLOW UP THIS
OPPORTUNITY TO REDUCE ROLE OF BOYCOTT IN GOE TRANSACTIONS WITH
US. IF DEPT HAS NO OBJECTION, WE WOULD PROPOSE TO EGYPTIANS THAT
MODIFICATIONS APPLIED TO AID-FINANCED TRANSACTIONS BE EXTENDED
TO DOCUMENTS USED FOR REGULAR COMMERCIAL TRANSACTIONS. PLEASE
ADVISE.
EILTS

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